"Nelcast Limited's Conference Call"

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P. Deepak: Good afternoon, everyone. I think we can get started. Just a quick introduction. I know we shook hands and exchanged cards. I'm Deepak, I'm the Managing Director for Nelcast and with me is Sivakumar; he's the CFO and Company Secretary for Nelcast and joining us also are our IR team from EY, who are supporting us in our IR venture.

You got this "Investor Presentation," it's uploaded on the exchanges on the website, all of that. But I thought perhaps if you'd like, since I'm not sure if everybody's familiarity with the company is the same, we can go through this fairly quickly. I'll try to do it within 10 minutes so that we can keep more time open for questions and what we're working towards and a little bit more about the company in terms of what might interest you. If that sounds good to everybody, I can get started.

So, really quickly, the company was founded in 1985. We manufacture ductile and grey iron castings. Our segments that we cater to primarily, commercial vehicles, tractors of highways equipments, railways and passenger vehicles. We're the largest producer of ductile iron castings for the Indian market, and we're also a large producer of grey iron castings. Wide customer base ranging from everybody in the sector, that are key players in the sector.

Interviewer: Ferrous would be your competitor?

P. Deepak: Potentially, on certain products they are. They produce only grey iron castings. Majority of what we produce is actually ductile iron castings. So, there is a small overlap of what we do. A big chunk of their production goes into engine block and cylinder heads. We actually don't manufacture that as a product in our product range at all. So, there is a small overlap, but fairly small.

I want to explain all the products, but just some of the key ones that we're doing. On commercial vehicles, three products I'd like to highlight: One is the Forward Differential Carrier. So, this is a component used in heavy duty trucks. So, typically, a lot of these tippers that you may see or the heavy duty tractor trailers that you might see, where you have multiple drive axles. When I say heavy duty, there's a lot of torque that you need to use for moving material or whatever else it may be or going up steep gradients. So, in such situations, there is a forward differential carrier in addition to a rear differential carrier. So, what that does is, you have two axles that are driven. So, the forward differential carrier receives power from the propeller shaft, passes it on to the axle, and it also passes on power to the rear axle behind it, which has the rear differential carrier. So, if we look at how are positioned in the market is, in the forward differential carrier, we have between 90% and 95% market share in India, and we're exporting these products all across the world.

If you look at the rear differential carrier market, this is something where we've got between 60% and 70% market share within India. And again, we're exporting these all over the world.

The bogie suspension bracket is used in these heavy-duty trucks where you need to have better application of that torque onto the roads. So, it's a relatively growing type of suspension system. And we produce brackets for virtually every manufacturer who makes these vehicles.

On tractors, if you see, the entire body is made out of castings. Not only the frame of the component there, that's also where all the gears are housed. So, we produce all those transmission housings, axle housings.

And then one of our new products is this four-wheel drive front axle housing that you see over here. These are products that until as recently as maybe less than a year ago, these were products that are being imported into India from China, because the capability didn't exist to manufacture products of this size. Because these products are about 1.4, 1.5 meters in length. And just about everybody else in the industry has the capability to do nothing more than a meter in length. So, this is a new product that we have introduced with our new line that we installed in 2020, and it's gone through validations with various customers, and it's also something that's helped us build relationships with new customers because in order for them to source this product, they had to visit our facility, do the necessary audits and approve us. And now we're in their system for as an approved supplier.

Of highway equipment, variety of again, different products, trumpet housings, monolithic axle housings. New business that we've recently gotten into is this forklift steer axle. So, this goes to end customers actually in the US, it's Hyster-Yale for their forklift. First time we are making that entry to the sector. It goes into their new model, which is in the process of getting launched, several variants getting launched. So, this will get wrapped up over the next year or so.

On railways, we produce brake disc friction bearings as well as base plates for various metro rails. So, the base plate is what actually sits on the concrete. It's fastened in by four bolts and then on that sits the clamp and the track itself.

On passenger vehicles, we supply diff carriers in this cases. Actually, virtually none of what we produce for passenger vehicles goes in the domestic market, almost everything is export, either direct or indirect export. But passenger vehicles are a little bit more of a pickup truck SUV, not a typical car segment. So, this is just the general process. I leave it to you to read through it perhaps on the website when you look at the presentation.

Three plants: Gudur, Ponneri and Pedapariya. We've got three automated moulding lines at our Gudur plant, which is actually our oldest plant. But we've upgraded all of those lines. The latest upgrade we completed a couple of months ago. So, earlier, we used to run eight manual lines, and today, with three automated lines we are able to get the same kind of productivity and capacity output.

Our Ponneri plant, we have one moulding line installed in the year 2001. German machine from a company called Cuca Bachmann in Germany. In addition to ductile iron, we produce grey iron as well in our Ponneri plant.

Our new plant in Pedapariya, we have two lines; first one was commissioned in 2018, second one in 2020. And if you look at the one in 2020, that's a very unique line, it's about 2.1x1.2 meters. We can produce castings heavier than 400 kilograms in this line. This is the line that we're able to take on some of these products that earlier could not be made in India for a variety of reasons.

I will try to just kind of skip through some of these things. So, if you look at our customer base, as I mentioned, OEM customers, largest customers, TAFE, followed by Tata Motors. in terms of tier one customers, globally we supply to Dana to American Axle to Automotive Axles, Coogar Industries. So, again, really wide range of companies we cater to, more than 40 different customers.

In terms of where we are located, our manufacturing plants are all north of Chennai, this is on the Chennai-Kolkata Highways, but all within 140 kilometers of Chennai of that highway.

One of the benefits of this location is that right here, this is the area where the sand that is utilized for manufacturing of molds, that's where it's mine. So, it gives us better control in terms of the quality of the sand that we're getting as well as in terms of the cost of moving the sand to other places. So, there have been times in the past when other manufacturers across the country have struggled a little bit more to ensure consistency of sand supplies, either due to rain or regulations, variety of things. However, we've been able to avoid those kind of issues on our end.

So, I'll just talk a little bit about what we see in terms of our growth potential and what we've been doing. So, we are exporting to many different countries; in Europe, we're exporting to Italy, Spain, Hungary, Belgium, Switzerland, Germany, Sweden, as well as France; in Southeast Asia to Indonesia and Thailand; and North America to US and Mexico.

And if you look at the way that we've grown our exports, we've seen actually quite a substantial amount of growth. If you rewind that in FY'15, we did about Rs.2.9 crores of exports. In FY'22, we did Rs.221 crores of exports. So, this has been an area that is growing quite substantially and we expect it to continue to grow at quite a substantial pace. Last year, compared to the year before, we've grown almost Rs.95 crores in terms of our export growth.

The reason for that? I believe that India as a supply base, in terms of competency and capability is very strong, and in terms of economics is becoming very, very competitive with the rest of the world and we are very competitive with the rest of the world. So, we believe that export is going to continue to grow.

We have a few factors that are helping us in this growth. One is in terms of the North American market, obviously, there is tariffs on Chinese products that are at 25% or higher. In addition to that, in a lot of these cases, the products that we're doing are higher complexity. So, typically in past years, we've not even faced Chinese competition, and right now, we're actually getting some business that getting resourced from China to us. And this is the first time that's happening. What we used to find was on the simpler parts where maybe the product complexity was not so high, the Chinese foundries were extremely competitive, I think the tariffs are eroding away that competitiveness.

The second one is there is also a China Plus One strategy. People are concerned about the reliability of China as a trading partner given a variety of reasons.

But in most of the cases, we are competing against domestic US foundries or Mexican foundries, and we're able to beat them on quality, price as well as delivery, and every single parameter that's important to our customers. So, that's something that's been quite a positive. So, that's why we've grown.

When we started with most of the customers, we started with one product and a small share of business of that product. Today, we are running several product lines, and we are the dominant supplier to most of our customers on those product lines what we are supplying. To give you an example, I think one of our customers, Dana, when we started the first product, we started with a 30% share of business on one product. Today, we have four products that are running with them, all four are running at 100% share of business. So, that's something that I think with the confidence that we've been able to get, we've been able to grow.

We have some new products that we'll be launching over the course of this year. One of those is diff carrier as well, that will go on the Chevy Colorado series of pickup trucks, the 2023 model year ones. So, the production will be starting at General Motors facility in January, and a few months prior at our facilities. So, our first entry into the passenger vehicle segment, pickup truck segment in North America. So, we've got that product that we'll be launching, as I said, at our customers end in January.

The other products that we have that's launching also that goes into that same segment. But a bigger and higher end of that segment is on the Ford Super Duty as well. We're going to be supplying the diff carrier on that product range on the 15th. So, if you went to a Ford dealership and you wanted 450 or 550, then chances are that you will be getting our product on every one of those. The Chevy Colorado every single product that's going to be sold across the US and Mexico, and wherever else they sell it, we'll have our products starting in 2023.

In addition to that, we've got several other product lines where we're increasing our share of business. Detroit Diesel is one customer where we're increasing our share of business from 50% to 70%. Similarly, Dana, we've got some new products that are launching as well that we go into the Class-8 segment. So, Detroit Diesel is entirely a Class-8 segment. Dana, at present isn't largely a classic segment. Going forward, it will be also the light vehicle segment.

We got an exciting new business also coming in the electric vehicle space. It's a relatively small business to start with in 2023, but goes quite substantially bigger in 2024, which is used for an electric delivery van. So, the type of vans that FedEx uses. In fact, FedEx, I believe, has placed an order for 2,500 of these vans in total, now they are talking about 30,000-odd of these vans being produced by General Motors. So, we've actually received order for one product that goes into these vans, that will be in the model year '23 and another product that will be in the model year '24 as well. So, we've got some additional business that's coming in.

In addition to that, we've got some new products also that we'll be launching that will again go a little bit into the trailer space, as well as the heavy truck space, Class-6, Class-8 kind of space as well.

So, with that, we feel quite confident in the North American market growth. We're seeing a lot of interest, a lot of potential in Europe as well. Now, with the Russia Ukraine crisis, the energy costs in Europe going up, competitiveness of European foundries seems to be quite dicey. And so, there's a lot of opportunity that we're seeing in Europe as well, that's coming up where we believe we'll continue to see quite a bit of growth that will happen.

The other part is the tractor industry, last year was expected to grow low single digit, degrew by about 6% to 8%. This year seems to be extremely strong. And the M&HCV segment also seems to be extremely strong. I think last year was about 2.5 lakhs or so was the sale of medium and heavy commercial vehicles, down from a peak that was at about 3.94 lakhs. So, we believe that there's a bounce back happening. We're seeing that in the business today as it stands. Typically, we see a first quarter, that's a lot weaker than the previous fourth quarter. We're not seeing that this time, which typically indicates a very strong year ahead. So, we hope that will continue and we see that continuing. I'm not going to spend too much time on that.

One thing I want to just touch upon, in terms of our energy about 55%, we're a very energy intensive industry, and we've got about 55% of our power that's tied up through renewable sources. Large amount of that is wind, there's a little bit of solar as well. That's part of this equation. But I think from an environmental perspective, this is what we believe is our biggest impact on the environment, the amount of energy that we consume, and that's something that we're focused on, looking at how do we make it more renewable.

So, all this information is publicly available, obviously, but I think I won't highlight the rest of it. I leave more time for your questions. Any questions?

Interviewer: Based on the export orders which you have, what is the order book right now, and where do you see the export mix going on in the next by, let's say 2025?

P. Deepak: So, 2025 is a little bit away, but let me tell you what I see in terms of the orders that we have, and where we see this trajectory happening in a relatively short period of time. So, if you look at last year, our average was about Rs.55 crores or so per quarter is what the run rate that we were doing in terms of export, right, so it came out to about Rs.220 crores for the year. We believe that when all of these projects hit maturity, which will be Q4 of this year, we will probably be somewhere in that 90, 100 crores a quarter kind of a range is where we believe that we'd be. So, we think that there's going to be a good amount of growth. Obviously, assumes that all the projects will launch on time as planned, which to be honest, I don't see any reason they won't. I think they will. But it does make that one assumption. So, we should be somewhere in that kind of a range.

Interviewer: What about the margins?

P. Deepak: So, margins in exports are better…I wouldn't say substantially better, but they're definitely better. So, typically, when we look at margins in the domestic space, we've been looking at margins, perhaps, something to the tune on a stable raw material base, something to the tune of perhaps something around Rs.10 a Kg or so on the domestic. On the exports, we typically see them closer to about Rs.15 a Kg kind of number on EBITDA basis, yes. On the exports, typically, that's something approximately where we see it.

Interviewer: Lot of new business you won, as you mentioned in your presentation, so, next year, what share of this total revenue this new business will be how much, whatever you won in last two years, China Plus One and your own efforts, expansion, what you have done for products, for them combined together, broadly how much would be your new business?

P. Deepak: So, again, lot can change, right, because I will tell you that some of this product that I was talking about from China, if you had asked me three months ago, I was not even talking with my customer about it, right? They hadn't even asked me for both the business. Today, we are on the fast track to actually being awarded the business, right, we've received and we expect that we will receive order for this business very soon, right. But, sometimes it's a little hard, hopefully, it will be better than what we think it is if we get awarded more businesses. But roughly speaking, we think that, like I said that, that run rate on exports of about, Rs.100 crores a quarter is something that's very achievable, within the next 12 months or so, right. It's currently about Rs.55 crores or so. So, that's what we see as a potential that's there right now with business where I can look at and very specifically I can look at this particular customer, this particular location approximately this, that that kind of thing, it seems that way. Looking at how the export markets look, right, because I know there's a lot of questions that are being jumped around about potential, recession and what that impact is going to be and all of that, and I've been asked a few questions about that recently. It seems to be that there's this huge backlog of orders. So, when I was visiting customers in the US, and as we're preparing for these launches, I also did a little bit of market research, visited a Ford dealership. So, this Ford super duty vehicle that we're going to launch, I wanted to see okay, what is the model year '22 look like, how's the market scenario, all of that? So, I went to the dealership and I asked the guy a question saying, “Okay, if I wanted to order this vehicle, how long what's the wait period?” “He says I can't even take an order.” Because there's no production slots available. I said “Okay, but what about the guys who are getting deliveries, do have a model on the floor?” He said, “no.” Everything they could sell, they sold it right. They don't have anything in the lot that's available for sale, they don't have anything that they will even take an order on. He says the guys that are receiving their deliveries now, place their order about nine months ago, in some cases even 11 months ago. So, some of the vehicles, the supply chain constraints, the production constraints, as well as the high demand has been so stark, that they're in a position where they're not even taking orders, let alone saying, “Okay, I'll deliver it after a year.” And that seems to be an issue, not just for Ford with this one range of products, but across a lot of maybe the higher end products. So, that is something that we think that even if there is some sort of slowdown which is going to need to be a substantial number of order cancellations for that to really impact sales, right? So, we think that over the next two years at least, the US market will remain quite strong. And if you look at our exports, I would say probably 80% or so is coming out of the US markets.

Interviewer: Additional Rs.50 crores will continue to be the case or higher?

P. Deepak: I believe will be something similar only, it won't be a substantial number.

Interviewer: Machining, everything and then you -?

P. Deepak: In almost all of the cases, we are supplying the product fully machined.

Interviewer: In-house or you give it outside?

P. Deepak: We give it outside. So, most of the machining activities that we're doing, we are preferring to outsource it. I think there's two things. One is core competence, we believe our core competency is in the casting and that's where we believe our focus is. The second is also in terms of the opportunities we believe, with the way the global market is moving, we will have a great amount of opportunities in the casting segment and we'd like to keep our resources focused on that.

Interviewer: Craftsman, right?

P. Deepak: Craftsman is one of our major suppliers. I think they're probably our largest vendor, we use permissioning. They're not the only one, we've got a couple of other ones. But in terms of the value of business, I think what we do with Craftsman is perhaps the highest.

Interviewer: What is the capacity utilization?

P. Deepak: So, if you look at last year for the full year, we have a total of 72,000 tons was the sales for the year. Our installed capacity is 160,000 tons, out of which realistically we could probably get to about 80% of that.

Interviewer: What is the peak production?

P. Deepak: I think was about 95,000 or so. There were a couple of things. Commercial vehicles were fairly severe hit in '19-20 even before COVID. The reason for that was the axle load norms that came in where every vehicle on the road was basically even licensed to load more because of the revision of the vehicle loading that had happened. So, if you look at where the M&HCV market was, which is a substantial chunk of our business. If you look at it for the financial year that just passed away was about 40% of our revenue came from M&HCV. So, at that point, of course, it was also a little bit higher, but that segment degrew from about 400,000 plus trucks a year down to below 200,000 trucks a year. If you see that over here one of these from about 3.9 to 2.25, the kind of drop that happened. So, that was one of the reasons that there was that degrowth that happened between '18-19 to '19-20. But also at the same time, if you look at '18-19 where we were in terms of export revenue, we were doing about Rs.90 crores or so. So, we've also kind of ramped up our exports. So, we believe that number that what we had achieved, we will do better than that in this current year.

Interviewer: When do you see you can reach to the 80% utilization?

P. Deepak: This is a little difficult to answer because it depends a little bit on the segment recovery and forces that are beyond our control, right. But we believe that within the next perhaps two years or so, we should be in that position where we can achieve that.

Interviewer: One of your persons mentioned that Rs.10 EBITDA will eventually go to Rs.14.

P. Deepak: We have kept a target of Rs.12 per Kg. As Sivakumar was saying, what we believe we can target and achieve in this currently or towards the end of the year, right, not as an average for the year but what directionally we believe, we will be able to achieve is to be at about Rs.12 a Kg in the current year, and in the next two to three years, we are working towards getting that number overall right not just for exports, but overall up to about Rs.15 a Kg.

Interviewer: In this journey what are the key levers to improve as value added products?

P. Deepak: So, there's variety of things. One, obviously, there's an improvement in the mix in terms of exports. The second one is in terms of domestic also more value add that we're looking to do. And of course, with better capacity utilization also we're looking at, better absorption of costs. The other part of it is one of our major costs other than raw material is energy. So, we're also looking at how do we procure energy at a lower cost, so we're working on those things. And of course, there's a lot of productivity improvement activities, as well as the other cost reduction activities happening at the plant level that we monitor on a monthly basis.

Interviewer: Do you see that your prices allow you to make such kind of profit, because usually they have data of all your cost items line-by-line, when they try to squeeze the subcontractor, so do you feel that we'll be able to do?

P. Deepak: I don't see that kind of an issue really cropping in at least for us. The challenge always has been with, I would say, to some degree, legacy pricing and trying to get legacy pricing kind of bumped up when things like that, but I wouldn't say that on the top of my concerns whether my customer will say, okay, you're making too much money, give me some money, I don't see that happening.

Interviewer: Last two, three quarters, percentage margin is down, but you would have maintained your absolute margin?

P. Deepak: Absolutely, right. So, there's been a few things that happened in terms of inflation of raw material, we pass through that inflation of raw material -

Interviewer: But you've not made the margin on the inflation?

P. Deepak: One, we're not making the margin on inflation, but the second part of it is this inflation pass-through whatever we have done comes with a lag. So, the mechanism that we have with all of our customers is, they'll take the average for what was let's say, April, May, and June, what was the average price of raw materials, and there's an index for that, they'll take that price, and that becomes your base price for July, August, September, right. Unfortunately, what we've seen happened in last year, every single quarter is this average is actually lower than your spot price on day one, which is also lower than your average price for the next quarter. So, whatever we've been seeing that effect of this lag has been there for the last, three or four quarters and it's been quite severe the amount of inflation that's happened in terms of raw material. So, we have passed on all the inflation of raw material… it has been completely passed onto our customers, and I believe in most cases that have been passed on to their end customers as well. But this lag effect is something that has hit our margins quite badly, if you look at the last three to four quarters, that is something that hit us quite badly.

Interviewer: What was the effect in March quarter?

P. Deepak: 1048. So, now it's reversed. So, now we will get to enjoy the benefit of passage of the lag, right.

Interviewer: Generally, how do you go ahead and block the steel once you get an order, so of course, it's a 50 tons order in the last, will you block 50 tons of steel, how does it work?

P. Deepak: So, what we do is we get monthly orders from all the customers, right, in terms of what the requirements and schedules, right. So, we get a scheduled release typically every month, in some customers, they give it every week, that kind of thing, there's a certain portion with customers where it's fixed and certain portion that's rolling, right, where they keep on updating it from time-to-time. But it's always continuous, right? So, we don't really lock in a big order price, right, because the same product is coming every month. It's a project where every time you have to go and kind of something or get into it. So, once it's fixed for the quarter, the price is fixed and we move forward with that and based on the volumes, whatever their demand they're getting, we supply it based on that. So, it's difficult for us to actually lock in the price. We have a few levers that we play with, right, depending on how much inventory we are able to store, what we want to store, we believe we can use that to our advantage and negotiate a better price, we would do that. So, perhaps, we might buy, 3,000 tons at a time and just hold it and we may not need to buy any material for the next two weeks. So, then it creates a certain amount of inventory at the scrap dealer location and he's more eager to sell, etc., So, there is a little bit of tactical things that we can do. But there is really nothing we can do at the moment with the market the way that it is being a spot market, nothing we can do to really move away from spot prices, right. So, we can use between volumes as well as requirement and being able to create some buffer of stock or dilute that buffer of stock, we can, we can do a few tactical things to try to optimize what we believe will be the best interest of what we can do. But at the end of the day, it's a spot market. And most of this scrap purchases happens through traders, because they will be collecting it from a variety of different sources, bring it into their warehouses, then they'll be doing a bundling activity to make it into bundles before we purchase it from them.

Interviewer: What is the supply and demand situation?

S.K. Sivakumar: We have to buy from the traders. Traders procure a steel scrap from various OEMs, other dealers, okay, then they'll bundle as insulators. We can't use direct from OEMs. It will come in those form. But it has to be bundled in our case.

Interviewer: Export sir, you mentioned that's our key growth driver in the past couple of years as well and you mentioned that for the next two years, you see export to be very good. Since majority of our export is to US given that the fuel prices are rising, your freight costs are rising and now the interest cycle is also turning upward, do you really see the next two years or you see slowdown coming there?

P. Deepak: I don't see a slowdown. In fact, what we've seen in the last three months at least is an acceleration of interest and potential for new business in the US growing. One of the drivers for that seems to be in the US has a huge labor shortage and inflation driven by also labor costs, right. Customers that are giving us more business than they've contracted us and they've actually upgraded our contracts. So, we had one particular product where that I mentioned the first product that we started with Dana, we started with a 20%, 30% share of business. During the last contract negotiation, they were having a long term agreement with the other supplier. The other supplier fought tooth and nail and said, "Listen, I don't want to go out of the business. You increase Nelcast share of business from 30 to 70, but you at least retain at 30." So, we had gone up to somewhere between 70% and 80% was where our share of business was. Today, that supplier has gone to the customer and said "Listen, you keep this business away today and I can't meet it, I use that capacity, because I'm not able to achieve what I want to achieve." So, a couple of months ago we increased to 100% on that particular product, right. It's not a significant amount or anything substantial that will change the world for us, right, that small change in the percentage of business. But I think the reason I'm highlighting is it's a little bit more, they're having more problems, sourcing parts domestically. So, I think supply constraints are definitely there domestically. We hope that this issue that's there in terms of freight pricing, and I think everybody feels that way perhaps it's not over yet, it's not going to start declining, freight prices are not going to magically start declining now, but perhaps another a year or two years, when you take a slightly longer term view, we do believe that freight prices will never come back to their old levels, but they will definitely not be at these levels. Will they be at about half of where we are today? Perhaps maybe even a little lower than that. So, it's a little bit of a temporary pain. And again, as an inflation, I think that's also gotten passed through, right, in many cases.

Interviewer: So, growth will come primarily from increasing share of business or increasing the market size?

P. Deepak: There's two things, right. So, I think share of business, we've been growing quite a bit, and the specific products that we already have, meaning, so if I take let's say a differential carrier, that's 14 inch sizes for Dana, we're already at 100% rate. So, the ability to move from 100 doesn't, doesn't. So, when I look at where dual sourced and where this potential, it's actually small because in most of the cases wherever they've started us off as a dual source, we become the single source again, and I would like to credit that to performance, right. So, when I look at share of business increase, I don't see that much of existing products, I don't see that much potential at the time being but there's a lot of new products also that are coming, and other products that we will develop that would be probably the next size up or the next size down and then we get awarded that business as well. And one thing that we've seen is earlier we were getting awarded new business at a share of business, right. So, they would give some part of the business to domestic suppliers, some part of the business to us. Today, when we're getting launched on new products, we have a single source on those products. So, one is, more products, there's a lot more happening in terms of growth, our biggest chunk is in that class-6, class-8 range of trucks that we're doing. But again, the new segment that we're literally just getting into now is the light duty, medium duty trucks, right, the pickup trucks, SUVs, that range is again completely new for us. We've never been in that segment ever in North America and we're going to be entering that segment in a big way in the next few months.

Interviewer: Three years, our share of export was around a high single digit. This year, it's in the range of 20% to 25%. In next two to three years, where do you see?

P. Deepak: I don't like answering that question only because I don't know what domestic is going to do, right. Export seems to be growing quite strongly. I believe if there is a real turnaround in the M&HCV segment is the tractor segment does well. Our domestic base also could be high enough. But I mean, realistically, I think maybe 30%-35% or something like that is what we can see the picture in a couple of years down the line. But again, I preface that by saying, I think there's a little bit of legs in the domestic business as well, that we'll see in the next couple of years.

Interviewer: In your domestic business based on your interaction with your customers, what kind of sense are you getting for this year especially on the CV side?

P. Deepak: I think M&HCV people are quite bullish, I think they're looking at about 20% or so. Maybe, if I have to put a range on it, I'd probably say 18% to 25%. I think publicly Tata Motors has also come out and said, 20%, they're telling us 20%, and then putting a little smile and saying maybe better, those kind of things. So, similarly, what we've been told by Leyland, they expect the bare minimum of 18%, right, they think it could go perhaps even higher than 25%. So, that's the kind of what we're seeing on the M&HCV side. And if I just equate that, historically what we've seen is, we've seen after Q4, there's about a 25% drop off to Q1. And then as the year goes around it keeps increasing. And there's usually a little bit of a dip somewhere around November because of the model your badging, etc., some small things, but typically, this is kind of the cycle that we see. This year, what we're seeing is we're seeing Q1 M&HCV demand equal to or in some cases greater than what it was in the Q4 of last year, which, again, we would have expected to see a 25% dip, we're not seeing that, we're seeing it flat. So, 25% number doesn't seem to be out of the ordinary at all. The tractor industry, we're seeing right now perhaps something to the tune of 10% or so. Obviously, April, everybody reported, some 40% growth in industry, etc., But let's keep in mind that last year April also was when we had COVID delta wave kind of rampant throughout the country. So, I think April and May months of last year were not perhaps very good indicators. In fact, we saw very good demand last year in April in M&HCV. And then as soon as COVID hit, that recovery never happened… it never bounced back last year. So, we hope that this year, we have no such issues and the numbers that we're seeing continue to remain very strong. And for us, one of the other things that we're seeing is in the heavy duty side, when you've got more infrastructure spend, that's happening, the number of tippers that gets sold is much higher, right. If you believe there's going to be a lot of infra spend that's going to happen, a lot of road construction activities, shallow mining activities, that's going to happen, tipper sales will do quite well. And there's two parts that will help us outgrow the industry when that happens in tipper sales as well. One, the casting contract of vehicle on a heavy duty tipper is higher than a traditional haulage vehicle. The second thing that's there is our share of business in these heavy duty tippers is again much higher than the industry. So, we believe that this segment is going to outgrow the overall industry as a whole. Then I believe we will also outgrow not only the overall industry but also this segment because of our share of business, right. I think a couple of products I pointed to, which was the bogie suspension brackets as well as that forward differential carrier when I was highlighting the products, and a lot of these are going in those tippers. And our share of businesses is in excess of 70% for the bogies and 90% for the differential carriers. So, that's something that we'll try.

Interviewer: In terms of exports on margins, what are the levers do you see ?

P. Deepak: So, as I mentioned, one, I think, on the cost side that we're working on. So, one is, of course, with improvement in capacity utilization, which we believe will happen this year, for sure, we're seeing a lot of positive signs on that. The second area that is on the cost side, that one is cost reduction activities that we're doing, but in addition to that energy cost and we've got power purchase agreements with –

Interviewer: On energy…

S.K. Sivakumar: See, what happens in foundry, generally, more volume produced in a lot of faster, okay, in terms of power, all other variable costs will become slightly better for us. And second on the energy front, we buy from EB as well as from wind. Okay, we get some price advantage should you buy from the wind, because we have good arrangement with the power suppliers, we get power concession.

P. Deepak: So, it's a lower cost of power that we're able to buy. But there's a commitment, there's two parts of it. One is capital investment that's been made for it to be a group captive purchase. And the second part of it is also that we're committed to buy whatever is produced, right. So, our share of whatever get produced, we are also committed to buy that. So, we can't necessarily all be at 100% too, because we have to manage our variations as well.

Interviewer: About further expansion?

P. Deepak: So, we do have potential. So, right now we are at about 160,000 tons. So, let me elaborate on one thing, and then I'll tell give you the whole picture. So, in our Pedapariya plant, in phase-2, we have installed 42,000 tons capacity, there's an additional 30,000 tons where the automated lines, everything is ready, we need to add furnaces and supporting equipments. So, that is about a 30,000 ton increase that we can do over there. Also, in our Ponneri plant, we have some room to do modernization as well as add some additional furnaces, etc., We're looking at about another 20,000. So, about 50,000 tons or so we can look at as a further increase within our existing facilities before we have to really start looking at rebuild and these investments fortunately, are something that we can do at a fairly reduced cost rate, something maybe 50, 60 crores kind of investment. So, it's not a substantial 250 crores investment, which you'd have to do to create this kind of capacity.

Interviewer: Any scope for debottlenecking?

P. Deepak: Yes, that is something that continuously we keep working on and we are doing. So, right now we believe we can achieve about 80% or so and we believe we can get to that in the next couple of years, about 125, 130, something like that.

Interviewer: You said 160 plus 50 in terms of CAPEX. So, in terms of debottlenecking, is there more scope to improve?

P. Deepak: Not beyond that So, within that 160, we can debottleneck and try to improve from where we are today to get to that 80%. If possible, we can do even slightly better than 80%, as we get there, there'll be smaller bottlenecks that we'll have to resolve and we can probably even get beyond that 80% gradually. So, if you look at it, for the whole year we did about 72,000 tons, for the last quarter we did about 20,000 tons approximately, give or take 500 tons kind of a number. So, at that run rate, basically at about 80,000 about 50% would be the utilization.

Interviewer: Can we cross 20%? Somewhere lower in cost of equity, cost of capital also. So, what is our next five year vision when we see such great opportunity in profitability, so most of the EBITDA required to cross 20%, 22%?

P. Deepak: So, I think for us to cross the 20% or so, we can at about a Rs.15 a Kg kind of a thing if you're doing 120,000 tons, we will be able to achieve that.

Interviewer: So, that will be by FY'24?

P. Deepak: That's the goal. Let's say 25 and hope it's sooner.

Interviewer: How would you handle the working capital pressure given the export mix will be like 40% and the lead times are 90 days plus?

P. Deepak: Because export does put a little bit of pressure in terms of working capital because of the lead times in terms of receivables and all of that. But I think that's something that we'll manage it internally, we have to.

Interviewer: Basically, so your inventory days and receivable days has been stretched. It is because you have been able to manage your payable days, working capital cycle, looks -?

P. Deepak: Roughly about two to two and a half months.

Interviewer: So, as your export percentage increases, your working capital is going to be stretched?

P. Deepak: The working capital requirement will be higher with greater exports. But again, like I said, I think there is some legs in the domestic. So, it's a little bit of ratio as well. But yes, I mean, that's a fact.

Interviewer: So, are you also planning to go into value addition like more of the machining, how much portion of your output is fully machined and how much could be improved?

P. Deepak: So, I would say in terms of our scope of supply, 65% would be supplied in fully machined condition. Out of that 65%, if I break that up, maybe 15% we're doing it internally and balance 50% is outsourced.

Interviewer: What is the margin differential between the domestic and export business?

P. Deepak: I mentioned on EBITDA basis right now it's about Rs.5 a Kg kind of a number that's the difference.

Interviewer: Working capital cycle in export versus domestic?

P. Deepak: Domestic is about 60 days. Export is at about 120-135 days.

Interviewer: Any plans to shift the machining capacity, fully integrated?

P. Deepak: No.

S.K. Sivakumar: Our working capital requirement will increase because of our share in export increase.

P. Deepak: Do you have any surplus land to operate in future?

P. Deepak: There's a couple of things. One, we do have some amount of land unutilized within the company itself. And in addition to that, there's a subsidiary that we have NC Energy, which was created, I think, probably 12 years ago or so for the purpose of setting up a power plant. So, that subsidiary has acquired about 420 acres of land. That is part of that subsidiary. We're not currently investing anything further in that subsidiary in terms of this thing. We're looking at couple of options; one, whether it makes sense to set up something solar for our own captive use, the second option that we're looking at is if we find the right opportunity, we will look at disposing that asset.

Interviewer: So, in this 12 years, was there any land acquired for power plant?

P. Deepak: Nothing. The original identified area was actually about 1,000 acres that we were planning to acquire. But however, we decided, I think to stop when we got to –

Interviewer: What was the amount invested in this?

S.K. Sivakumar: Rs.38.5 crores.

Interviewer: What would be the current value approximately?

S.K. Sivakumar: We've not done any valuation of the land. What we invested is about Rs.40 crores in that subsidiary.

Interviewer: This is exactly where?

P. Deepak: It's in Tuticorin. District. I'm not sure if you're familiar with the power plant that TANGEDCO has at Tiruchendur taluk. It's actually fairly close to where the new ISRO launchpad is coming up if you've been following that, it's not too far away from that. So, we believe we wait a couple of years, there's going to be a good amount of development happening there and there's potential value that can be unlocked as opposed to trying to exit today.

Interviewer: You also have any exposure to railways?

P. Deepak: These two products we're doing for railways actually… not directly to the Indian railways, but through some integrator who does additional value add. One is we're supplying to a company called Wabtec which actually is a company that acquired GE Transport, that entire rail division, right? So, we're supplying to Wabtec and what we're supplying to them in India is their disk brakes. So, all the Rajdhani, Shatabdi trains because they are expected to travel at speeds up to 160 plus kilometers an hour, they can't use the conventional type of brakes, they have to use disc brakes like we have on our cars, right? Of course the discs are a lot bigger, they're about 125 kilos each, 130 kilos each for a disc. So, we are making that product. When we started this business, the goal was to say, okay, can we do 300 or 400 a month. Suddenly, the Indian railways took bold decision to say that all new coaches will be LHB coaches, which are these used on the Rajdhani, Shatabdi. So, in 2018-19, we saw a huge increase and now we've seen it stabilized over the last couple of years at about what we thought 400, 500 would be great is currently somewhere around 2,000 or so a month that we're doing these discs. So, that is one part of the railways business we do. The second part of the railways business that we do is the base plates for all the Metros. So, this base plate has four holes, which are used to anchor the plate down onto the concrete below it. It also has a little functionality thing here where the clamp, there's a little spring that's used to hold the track in place and the track is also placed on the plate. So, this is something we used to supply from phase-I of Delhi Metro. So, we've been doing this business for 21 years or something like that. It used to be a very project-based business, right. Suddenly you get phase-I of the Delhi Metro, you get this huge amount of order for six months, then you forget about it for the next five years. Then phase-II of Delhi Metro came again, same kind of thing, eight months, there was all this business, and then it went away. But what we've seen since 2013-14, is this Metro after Metro after Metro. So, we've never seen a gap of more than 2, 3, 4 months between project-to-project and there's this huge pipeline of projects that are lined up for the next three or four years that it looks like it will continue to stay this way. I think right now we're finishing up the most recent phase of the Bangalore Metro. So, there's a Kanpur Metro that we did, Lucknow Metro we did, there's a Lucknow Metro we did, we did Kochi Metro, we did Hyderabad Metro. I don't know how many phases we did. In Delhi Metro since then they've been so many other phases that have come. Navi Mumbai, we've done. I think there's again a whole bunch of –

Interviewer: Like 1,20,000 tons, how much is -?

P. Deepak: Not that much. I think perhaps, maybe 500, 600 tons a month. 4.47 is the current revenue, it will probably remain something similar to that only, I don't think it will double, it might even come down as a percentage.

Interviewer: Rs.10-15, almost like 45% increase. Could you share for exports?

P. Deepak: No, no, no. Obviously, as I said, one is on the cost front, right.

S.K. Sivakumar: More and more volume we do in foundry.

P. Deepak: So, as we mentioned, technically, we look at when we think about power costs, we look at the variable cost, even though in power cost, there are two parts, there's a maximum demand, which is a fixed cost for the month, and then there's a unit consumption. The other part is let's say, for example, you are melting 100 tons a day, your unit consumption might be at about 700 units a ton. When you improve your efficiency, and instead of doing 100 tons a day, you're doing 120 tons a day, this 700 units a ton will actually come down to 680 units per ton. So, even though we consider the 700 units as a pure variable cost, this 700 units gets even better as you get more and more efficient, right. So, there's some amount of that, also, in addition to operating leverage that comes into the picture, right? Then there's obviously in terms of energy purchases, as well, that is something that we're doing. Margin also, even on the domestic, some of the new products, what we're talking about the four wheel drive, axle housings, all these kinds of products, we're talking about, newer products with more complexity and unique capability of what we can produce versus what we believe is available in the market. So, there we think that we can make that happen.

Interviewer: What kind of increase in debt you see in the next couple of months because of his working capital?

P. Deepak: I see whatever we pay down which is roughly about 30-odd crores a year kind of repayment that we have, I don't see that we probably take more than that.

S.K. Sivakumar: Total debt maybe more or less the same.

Interviewer: Rs.300-crores is the peak debt?

S.K. Sivakumar: Correct. We have no idea to borrow.

P. Deepak: We have peaked out now. We're not looking at increasing. We'll see term loan start to go down, we'll see the working capital kind of take its place a little bit as this thing goes for.

Interviewer: Absolute number?

P. Deepak: At least we don't foresee any real increase happening.

Interviewer: Sir what will be the recent….

(Interview Ended Abruptly)